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MULTILATERAL INVESTMENT FUND

COLOMBIA

PROMOTION OF COOPERATIVE VENTURES BETWEEN FIRMS

(TC-01-08-00-7)

DONORS MEMORANDUM

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ANNEX I Logical Framework

ABBREVIATIONS

ACOPI	Asociación Colombiana de Medianas y Pequeñas Industrias
CESI	Committee on Environment and Social Impact
CORFO	Corporación de Fomento de la Producción
FOMIPYME	Fondo Colombiano de Modernización y Desarrollo Tecnológico de las Medianas, Pequeñas y Micro Empresas
GDP	Gross Domestic Product
GOC	Government of Colombia
IDB	Inter-American Development Bank
MIF	Multilateral Investment Fund
PEU	Program Execution Unit
PRODES	Proyectos Asociativos de Fomento
SENA	Servicio Nacional de Aprendizaje
SERCAL	Servicios de Consultoría de América Latina

Promotion of Cooperative Ventures between Firms

(TC 01-08-00-7)

EXECUTIVE SUMMARY

Executing agency:	Asociación Colombiana de Medianas y Pequeñas Industrias (ACOPI)
Beneficiaries:	Direct beneficiaries, 150 small and medium scale enterprises that receive partial financial assistance for the design and implement cooperative ventures to improve their productivity and competitiveness.
Amount and source:	Modality: Grant – Small Enterprise Development Facility MIF: US\$1,092,400 Local: US\$ 737,500 Total: US\$1,829,900
Terms:	Execution Period: 36 months Disbursement Period: 42 months
Objectives and Description:	The general objective of the project is to enhance the competitiveness of small and medium scale enterprises by facilitating and strengthening cooperative ventures between firms either linked horizontally in industrial clusters or vertically in production chains. In addition, the project should help to demonstrate the effectiveness of these cooperative ventures and encourage further participation in other areas and industries, as well as facilitating the potential of sounder business relations by building greater trust and confidence between firms.
Environmental/Social review:	The Committee on Environment and Social Impact (CESI) reviewed and approved this project on January 11, 2002.
Special contractual conditions:	Before the first disbursement: (i) official agreements signed with other institutions regarding their financial contributions during the first year of the program for counterpart financing, and (ii) the formal approval by ACOPI of the Operational Regulations and a model contract for the implementation of business alliance plans, acceptable to the Bank. (The Operational Regulations and model contract have already been prepared and reviewed by ACOPI.) Continued disbursements to ACOPI, after the 24 th month of program implementation would be contingent on: the establishment of a legally independent entity by ACOPI and the delegation of administrative responsibilities of the program to this entity; and after the 30 th month on the approval of a sustainability plan for the program, acceptable to the Bank.

**Exceptions to
Bank policy:**

None

I. COUNTRY AND PROGRAM ELIGIBILITY

- 1.1 Colombia was declared eligible for all forms of financing from the Multilateral Investment Fund (MIF) on October 29, 1993. This initiative is considered eligible through the Small Enterprise Development Facility (III-A), as it will seek to develop the market for non-financial services by promoting the incorporation of small businesses into productive networks and will encourage productive business integration. Moreover, this project will be part of the MIF Cluster *Improving Competitiveness Through SME Networks*, as it seeks to introduce effective new approaches for promoting small businesses through the productive networking of groups of firms.

II. BACKGROUND

A. Competitiveness of Small and Medium Scale Enterprises: Role of Cooperative Ventures (Clusters)

- 2.1 Enhancing the competitiveness of small and medium scale Colombian firms is constrained by numerous factors, including the high cost and short-term of financing, the lack of trained technical workers, weak management capabilities, poor access to cost-effective technologies as well as the additional costs posed by security and legal risks. The process of enhancing competitiveness is complicated and requires actions on many fronts. However, experience has shown that by working together groups of firms, in one industry, preferably concentrated in a specific geographic location, can pool assets to obtain economies of scale and thereby lower the costs of addressing common problems for the participating firms. (This type of association is usually termed a horizontal network or cluster.) Similarly, firms that are already engaged contractually in a chain of production can lower transaction costs and increase efficiency of production and sales to enhance the competitiveness of the chain of production. (This type of association is termed a vertical network or chain of production.)
- 2.2 This process of close cooperation between competitive firms is considered one of the keys to the economic success of northern Italy and Western Germany, where small and medium sized, usually family-run, firms, play a predominate role in the corporate sector. One of the ways in which these firms have been able to overcome the advantages of larger competitors has been working jointly to address common problems and take advantage of opportunities. Joint activities have included: the sharing and pooling of orders and purchases, joint marketing programs, establishing product standards, sharing knowledge about and in some case jointly developing effective production technologies, sharing access to high cost equipment, as well as labor training and upgrading programs. These associated ventures combined with the greater flexibility and agility of smaller firms have allowed them to compete effectively in national and international markets. Firms are motivated to engage in these joint activities because of common objectives, and are able to do so effectively because of built-up trust and confidence in each other. This trust and confidence is an element of social

capital, which some observers, claim is necessary condition for effective democracy and market-based economic systems.¹

- 2.3 **Experience in Latin American.** The structure of Latin American industry is similar to that of Italy and West Germany in that it is dominated by small and medium sized industries that are family owned. In addition, as in these countries, personal relationships are important in business dealings, and predominate over legal relations. These characteristics lend themselves to cooperative ventures and effective cluster formation. However, in much of Latin America, there is a low level of social capital and trust between firms to work closely together and share information. This inhibits the formation of effective cooperative ventures and clusters.
- 2.4 There is, however, significant evidence that external programs in the Latin American context can help to strengthen the process of confidence between firms and help to promote the development of effective clusters.² The most important example is the Proyectos Asociativos de Fomento (PROFOS) program implemented by the Corporación de Fomento de la Producción (CORFO) in Chile. In this demand-driven program, external assistance was provided to cover part of the costs of cooperative ventures by groups of small to medium scale enterprises. This program was rigorously evaluated and was found to have a significant and positive return.³ Building on this program, MIF recently supported a program of Servicios de Consultoría de América Latina (SERCAL), an NGO that participated as a service provider in the PROFOS program.

B. Colombian Experience

- 2.5 The proposed executing agency of this program, ACOPI, has been the leading promoter of cooperative ventures or cluster formation in Colombia. Through its PRODES (Promoción de Desarrollo Empresarial), established in 1996, ACOPI has been disseminating information about the benefits of cooperative ventures and clusters, and facilitating the formation of business alliances between small and medium scale enterprises, organized horizontally, and in some cases vertically in close coordination with a larger enterprise. Through these efforts, 40 business alliances have been formally established in 17 cities, incorporating approximately 360 enterprises, and distributed amongst 10 industrial sectors. The experience has shown that it takes between one to two years for the members of the alliance to attain sufficient confidence and trust in each other to begin to implement specific joint actions. Due to insufficient resources, ACOPI could not assist significantly the business alliance in either the design of specific action plans or the implementation of specific joint projects. Even without financial assistance,

¹ Putnam, Robert; Making Democracy Work, 1992. Princeton Press.

² It should be noted, however, that external interventions were not key factors in the formation of clusters in Italy or Germany.

³ Benavente, J. et.al., "Impacto del Instrumento PROFO en la Pequeña y Mediana Empresa," mimeo, April, 1997. It should be noted that this is one of the few cases where a business promotion program was rigorously evaluated and found to have a clear significant positive impact.

about half of the groups have already identified a joint project and financed some joint activities. Partial assistance to design rigorous action plans and implement projects is expected to accelerate the demonstration of the positive effects of cooperative ventures, and as such accelerate the process of effective industrial cluster formation in Colombia.

III. PROGRAM OBJECTIVES AND BASIC COMPONENTS

- 3.1 The primary objective of the project is to enhance the competitiveness of small and medium scale enterprises by facilitating and strengthening cooperative ventures between firms either linked horizontally in industrial clusters or vertically in production chains. In addition, the project should help to demonstrate the effectiveness of these cooperative ventures and encourage further participation in other areas and industries, as well as facilitating the potential of sounder business relations by building greater trust and confidence between firms.
- 3.2 The program is designed to achieve these objectives by providing assistance to formally organized groups of firms to develop and implement plans of action to jointly address common challenges. To reach these objectives more effectively and efficiently, the program is demand-driven, with selected projects proposed by beneficiaries with limited restrictions on the types of eligible projects. In addition, the program includes selection criteria to support those groups that have already demonstrated a capacity and willingness to work together. Moreover, as the success of the program depends primarily on the actions of the participating firms, the firms will have to finance a significant portion of the cash costs of their cooperative venture supported by the program. This creates a strong financial incentive for participating firms to submit plans and implement activities that they are convinced will be effective and provide significant real returns.
- 3.3 The program consists of four components: (i) Promotion of business alliances (cooperative ventures between groups of firms); (ii) Preparation of specific action plans for selected business alliances; (iii) Implementation of action plans; and (iv) Evaluation and dissemination of results.

Component 1: Promotion of business alliances. (MIF US\$ 26,000; Local US\$ 27,080)

- 3.4 This component consists of activities to help ensure an understanding of the program and the benefits of cooperative ventures and clusters within the Colombian business community, especially among small and medium scale enterprises, as well as helping to promote demand for program activities.
- 3.5 The first activity will be an inaugural event to introduce publicly the project and build credibility. A second activity designed to ensure adequate demand and local support will be a series of regional forums to be held in at least six different cities, including Bogota, Medellin, Cali, Barranquilla, Bucaramanga and the coffee-growing region (Manizales, Pereira and Armenia). The first round of these

forums will be held by the third month after program initiation and will include representatives of existing alliances and other interested members of the private sector. Each of these half-day forums will include presentations regarding the benefits of forming business alliances, highlighting successful examples, especially those from Colombia. In addition, the forums will present the objectives and activities of the program including details on how interested alliances may participate. An additional round of forums will be undertaken to encourage companies to work collectively by highlighting the benefits of forming alliances and promoting the results of the program to date. This second round of forums will specifically target representatives of companies that have not yet participated in an enterprise alliance.

- 3.6 The program will also include a series of twelve one-day seminars in order to promote the development of the participating business alliances as well as to disseminate the results of the program on beneficiaries to date. These seminars will be facilitated by program staff and will be held in the six industrial zones in Colombia (see paragraph 3.5). These events will include presentations made by representatives of participating alliances. It is expected that there will be two rounds of these seminars. The first will commence approximately at the mid-point in the project after the mid-term evaluation is completed, and a second one at the 30th month, once there are even more results from participating alliances.
- 3.7 This component will also incorporate the development of various publications and other means to promote the program and disseminate information, such as a web site. This will also include the design of brochures to be distributed to potential participating companies explaining the characteristics of this program, eligibility criteria, financial terms and conditions, and the advantages and possible methods for developing alliance proposals. The program will also finance the preparation and reproduction of periodic bulletins that will be sent out to Colombian businesses as a way to disseminate the results and progress of the program.

Component 2: Preparation of action plans (MIF US\$ 114,930; Local US\$ 125,690)

- 3.8 The intent of this component is to assist alliances, selected by transparent criteria and that indicate a high possibility of eventual success in the implementation of cooperative ventures, to develop action plans to improve cooperatively their productivity and commercial performance.
- 3.9 The first activity within this component will be to train a group of regional coordinators for each of the six participating regions of the country. Training will be provided to ensure they have sufficient understanding of the program's objectives and rationale, as well as its operational processes to carry out their responsibilities to promote the program in their region and assist potential and actual beneficiaries meet program requirements. The training should help improve the effectiveness of the coordinators and also help assure consistency in methodologies and the quality of service.
- 3.10 Interested business alliances will need to submit a formal application. (See technical files for a model application). Alliances will be able to work with the

regional coordinators, who can assist in the preparation of applications. The coordinators will inform the interested alliance of the program's characteristics, selection criteria and the terms and conditions for financing for both the preparation and implementation of action plans. Applications will be accepted continuously, but the selection process will occur once there is a pool of ten eligible applications, or every three months, whichever comes first. Eligibility criteria include the requirement that all beneficiary members of the alliance must be private, legally constituted micro, small or medium enterprises.⁴ and that the alliance has already been formally established with previous experience working collectively.

- 3.11 Applications will be ranked by the program director according to a set of weighted selection criteria, including the number of years of existence of the alliance, the number of projects the alliance has already initiated, the amounts spent on these existing cooperative projects, and finally the percentage of the costs of the preparation of the action plan that the alliance is willing to pay. (See the technical files for the operational guidelines). The program director will submit a report summarizing the rankings of the pool of candidates for the review and no objection of the Program's Board of Directors. The top half of each round of applications will be approved, as long as they meet a minimum score. Rejected applications that meet the minimum score would be submitted automatically to the next round. It is expected that at least 20 business alliances will have to be selected to prepare Plans of Operation to meet the goal of financing the implementation phase of a minimum of 10 business alliances.
- 3.12 The process of preparing action plans will begin with the development of detailed assessments for each of the selected enterprise alliances. These assessments will be undertaken through the organization and facilitation of assessment workshops for each of one of the 20 selection alliances. These workshops will seek to analyze and develop the capacity of companies, both on an individual and collective basis, to understand how to work in a joint effort in an alliance. For the individual assessments, an expert consultant will be contracted to prepare a detailed report on each company based on a visit and discussions with representatives in order to assess their productive, financial, trade and human resource capacities. For the collective assessments, the same consultant will develop a detailed report of all the companies within an alliance through working with them all together for at least a two-day period to analyze carefully the characteristics of the sector and the possibilities for the alliance.
- 3.13 Based on the individual and collective assessments, the consultant contracted for each alliance, will facilitate the preparation of a detailed action plan, which includes objectives, indicators, activities, detailed budget, expected timeline and profile of the professional to manage the alliance activities. (See the technical files for draft terms of reference for preparing an action plan). The program will cover no more 75% of the costs of preparing each action plan, up to a maximum

⁴ Micro, small and medium enterprises are defined simply as having less than 100 employees and less than US\$3 million in annual sales.

of US\$11,250 per alliance, with the rest of the costs being covered by the participating companies.

Component 3: Implementation of action plans (MIF US\$ 620,000; Local US\$ 380,000)

- 3.14 The objective of this component is to implement the eligible action plans proposed by the selected enterprise alliances. It is expected that only about half of the alliances that are selected to prepare action plans will proceed to the stage of proposing eligible action plans for Program assistance. As such it is estimated that 10 action plans will be financed requiring the selection of about 20 alliances to prepare action plans. While the exact type and activities encompassed within an action plan (or “project”) will undoubtedly vary, nevertheless, the program expects to assist in the following types of efforts: (i) developing new or expanding existing national or international markets; (ii) reducing costs and improving product quality through the implementation of more efficient joint production or distribution systems (iii) training of personnel to increase their productivity; (iv) expansion or improvement of information systems through the incorporation of superior technologies or software upgrades that allow for better decision-making or improved client services, reducing response time and administrative costs; (v) implementation of quality or environmental management system, food safety system and/or good manufacturing practices on a collective basis, reducing the costs per company due to economies of scale; and (vi) technology transfer, especially in the case of vertical alliances when the large company is seeking to foster the incorporation of new technologies or processes among its suppliers.
- 3.15 Eligible action plans to be financed by the Program will be selected on a first come, first served basis. Each eligible action plan will be submitted by the program director to the members of the Board of Directors for their no objection consideration. Selected alliances will sign a contract agreement between the program and the members of the alliance (see the technical files for a model agreement). It is expected that the implementation of selected action plans will not have negative environmental impacts, given that productivity increases are compatible with improved environmental management.
- 3.16 Each alliance will identify and select a project manager to facilitate the implementation of the action plan, who will be paid for directly by the participating companies. In order to ensure that the manager is qualified to manage a cooperative venture, up to three specialized training sessions for project managers will be provided during the first year of the program to the selected managers. The requirement of hiring a trained project manager was included based on the evaluation of the PROFOS project in Chile, which showed that the capabilities of and confidence in the project manager by the alliance members was an important factor in the groups successfully improving their financial performance.⁵

⁵ Benavente, J., op. cit.

- 3.17 The program can provide financing for up to 50% of the costs of the activities included in the action plans up to a maximum amount of US\$100,000 per alliance or US\$10,000 per participating company, with the remainder being covered by the participating companies. Eligible costs include expenses for contracting of consultants for the development of market studies, training and technical assistance. No more than 20% of the resources from the program can be used to finance capital costs or infrastructure related expenditures. All activities within the action plans should conclude no later than four months prior to the end of the program.

Component 4: Evaluation and dissemination of results (MIF US\$ 77,200; Local US\$ 22,200)

- 3.18 The objective of this component is to evaluate the progress and achievements made by the participating enterprise alliances and to disseminate the results. For purposes of tracking the progress of activities of the various alliances, a database specialist will be contracted to design an information management system that will be continuously updated by program staff. Information generated during the process of preparing the action plans will also be incorporated into the information database, including the baseline data of the indicators for each individual company and collective alliance. Alliance managers will be responsible for collecting the data to be fed into the database on an ongoing basis. Program staff will supervise the development and progress of each alliance, verifying their advancements and ensuring that each one is evolving according to the action plan.
- 3.19 The program will encompass two separate evaluations, which will be undertaken by third-party entities (see paragraph 7.1). The first evaluation will occur at the mid-point of the program and will analyze the advances of the program to date and suggest possible corrective actions if needed. The second evaluation will occur after the end of the program, with the objective of understanding the achievements and disseminating them to a wide audience. Both evaluations will utilize the information compiled in the information database. To disseminate the results of the program and the benefits of alliances, the program contemplates a specific presentation to be made by program staff during the annual conference of ACOPI, communicating the overall results of the program along with the specific achievements of alliances supported by the program. Finally, additional resources from the program provided by the MIF will be used to finance activities related to the evaluation of the MIF Cluster of which this program is part, such as monitoring and the participation of program staff in workshops and conferences conducted by the MIF for this Cluster.

IV. EXECUTING AGENCY AND BENEFICIARIES

A. Execution structure

- 4.1 The proposed program will be executed over a three-year period (36 months of execution and 42 months for disbursements), and the Asociación Colombiana de

Medianas y Pequeñas Industrias (ACOPI) will be the grant beneficiary and responsible for local counterpart resources. ACOPI is a non-profit business association, which was created in 1951. As a trade association, ACOPI has represented the interests of the micro, small and medium enterprises, seeking to improve the conditions in order to develop and increase their productivity. ACOPI has over 2,000 companies as members and maintains regional offices in 16 municipalities in Colombia. The national office of ACOPI is located in Bogota and includes a team of qualified professionals with national and international experience specifically related to the development of business alliances.

- 4.2 ACOPI has experience participating in the implementation of Bank projects including the creation of Business Development Centers with Confecámaras (ATN/ME-4911-CO), an initiative focused on environmental management and incorporation of cleaner technologies with CINSET (ATN/MH-7269-CO) and the National Quality Program for Small and Medium Enterprises with ICONTEC and SENA (ATN/MH-6752-CO). Moreover, through its experiences with the PRODES program (see paragraph 2.5), ACOPI has developed an understanding of the cluster building process and therefore is uniquely qualified in Colombia to undertake this project.
- 4.3 For the day to day management of this initiative, a Program Execution Unit (PEU) will be established consisting of three staff members: a Program Director, a Project Executive and an administrative assistant, which will be selected and contracted through a competitive process (see the draft terms of reference in the technical files). The program will also establish a Board of Directors, whose general function will be to review the performance of the program, and in particular approve the annual operating plan of the project, oversee the selection of participating alliances and the performance of the Program Director. The Board will include five members: two representatives of ACOPI and three representatives from other private sector institutions, with at least one of these coming from a financial institution such as a private bank. Participation will be on a voluntary basis for external directors. ACOPI will select the members of this committee, with the no objection approval of the Bank Country Office. The Board of Directors is required to meet at least twice a year to review the selection of participating alliances, and to fulfill their other functions.
- 4.4 Management of the specific action plans will be undertaken by an alliance manager (see paragraph 3.12), who will be in charge of maintaining all the necessary documentation related to the activities in the action plan and their related costs. The manager will compile and make available to the program staff all information regarding the advances of the particular alliance and will also submit monthly progress reports to the regional coordinator and the PEU. The contracted alliance manager will be responsible for maintaining adequate documentation to support time and expense charges to the project.
- 4.5 In order to promote the sustainability of this initiative and create stronger incentives for effective service delivery in the promotion of industrial cluster

formation and development, ACOPI will establish a legally autonomous entity to administer the program and eventually assume complete responsibility once MIF funding ends. The entity, which should be established no later than the 24th month of program operation, will have the exclusive objective to improve the competitiveness of micro, small and medium enterprises in Colombia through the development and strengthening of the business alliances. Experience has shown that specialized institutions are more effective service providers than institutions that have other primary objectives. While ACOPI will delegate administrative responsibilities to the new entity, it will maintain legal responsibility for the execution of this program, until the end of the ACOPI-MIF program. ACOPI will be able to maintain effective supervision of the program, as it will be the sole source of financing for the entity. As such, it will be able to ensure that program resources are being used appropriately and according to the agreement reached with the Bank.

- 4.6 The program's staff would be contracted by the new entity and the same Board of Director's would maintain this function with greater independence. It is expected that the new entity would continue after MIF funding ends, supported both by funding from external sources and from service fees. A plan to assure the sustainability of the program will be developed and presented to the Board for approval and subsequently to the Bank by the 30th month of the program.
- 4.7 ACOPI will establish and maintain adequate management information systems to allow for continuous and effective supervision of project activities, financial transactions and flows as well as the performance of supported business alliances. The system will also facilitate the timely preparation of financial statements and reports. The project's recording system will be organized to: (i) identify sums received from different sources; (ii) report project spending in accordance with a chart of accounts previously approved by the Bank, distinguishing between MIF contributions and funds from other sources; and, (iii) monitor both the contracting and purchase of services and goods, as well as, as well as their use. ACOPI will also open separate and specific bank accounts for the administration of the MIF's contribution, and for the local counterpart funds. Finally, ACOPI will process the disbursement requests and their respective justifications of expenditures, in accordance with the Bank's disbursement procedures; maintain an adequate disbursements supporting documentation filing system for eligible project expenditures, allowing the Bank's supervision personnel and external auditors access to this documentation; and, prepare and submit to the Bank the project's final audited financial statements and the revolving fund's semi-annual reports.
- 4.8 **Revolving Fund.** After having completed all the conditions prior to first disbursement, a revolving fund of up to 10% of the grant may be made if the executing agency so requests. ACOPI will prepare and submit to the Bank, within a period of thirty (30) days after the closing of each semester, a semiannual report showing the status of the revolving fund as of June 30 and December 31. Disbursements of grant funds and the purchase of goods and services will be done in accordance with Bank/MIF procedures

- 4.9 **Financial Audits.** ACOPI will prepare and submit to the Bank, within ninety (90) days after the final disbursement of the project, final financial statements regarding the Bank's contribution and local counterpart funds. A firm of independent public accountants acceptable to the Bank and based on the terms of reference previously approved by the Bank will audit these financial statements. The audit costs will be financed with proceeds from MIF's contribution, in accordance with the Bank's procedures.
- 4.10 **Supervision.** The IDB Country Office in Colombia will be responsible for supervising this technical cooperation. ACOPI will submit to the Country Office all project progress reports within 30 days after the completion of each semester and a final report within 30 days from the last disbursement. These reports will follow a previously agreed format and will project activities, finances, results and will specifically include information from the monthly reports submitted by each alliance. (See paragraph 4.4) In addition, the Country Office will be charged with providing a report three months after project completion, indicating the results of the project. The Project Team will work closely with the Country Office on the technical issues regarding the execution of the project.

V. COST, SOURCE OF FINANCING AND COST RECOVERY

Budget Table (in US\$)

BUDGET CATEGORIES	MIF	LOCAL	TOTAL	%
I. Promotion of Business Alliances	26,000	27,080	53,080	2.9%
II. Preparation of action plans	114,930	125,690	240,620	13.2%
III. Implementation of action plans	620,000	380,000	1,000,000	54.7%
Evaluation and dissemination of results	77,200	22,200	99,400	5.4%
Financial Audit	10,000	-	10,000	0.4%
Project Administration	182,800	153,200	336,000	18.4%
Contingencies	61,470	29,330	90,800	5.0%
TOTAL	1,092,400	737,500	1,829,900	100%

- 5.1 The cost of the program is estimated at US\$1,829,900 of which the equivalent of US\$1,092,400 will be provided by the MIF (Small Enterprise Development Facility) on a non-reimbursable basis, and the equivalent of US\$ 737,500 will be provided by ACOPI as local counterpart funding in accordance with the preceding table. Although ACOPI has limited internally generated funds to finance counterpart expenses, external institutions have demonstrated great interest in supporting this business alliance development project. Letters of commitment have been received for at least US\$600,000 of external cash support, from the Konrad Adenauer Foundation, Fondo Colombiano de Modernización y Desarrollo

Tecnológico (FOMIPYME) a federally financed fund to support micro, small and medium enterprise development) and the Servicio Nacional de Aprendizaje (SENA), the national training service.

- 5.2 **Sustainability.** Through this program, the expectation is to improve the competitiveness of the participating companies through the formation and development of business alliances that allow them to confront and overcome challenges and obstacles that they have in common. It is expected that companies that form part of a participating business alliance will continue to develop additional activities and collective projects after the end of this project. Moreover, through the dissemination and demonstration of the results of the project, it is expected that other companies that did not participate directly in this program, will realize the benefits that can be achieved through collective actions, creating incentives for the adoption and participation in additional business alliances into the future. Lastly, by creating an independent entity specifically mandated to promote and develop enterprise alliances in the future, the program is secure that the activities encompassed within the program will continue past the life of this particular program.

VI. BENEFITS AND RISKS

A. Benefits and Beneficiaries

- 6.1 The program should help improve the competitiveness and overall performance of the expected 150 participating small and medium scale businesses. More importantly, the program should have an important demonstration effect of the benefits of cooperative ventures. This demonstration effect should encourage other groups of firms to cooperate on specific projects, and promote the formation of effective industrial clusters. Moreover, the program will also disseminate information on how best to form business alliances and to implement joint programs. This should allow other groups of firms to establish effective business alliances with little to no external help, and lower the costs for future projects in this area. Finally, if successful, the project will be able to serve as a model for similar efforts in other countries in the region.

B. Risks

- 6.2 The major risk of the project is that business alliances will not be willing to share information and resources sufficiently for the success of their projects. However, the focus of selection criteria on business alliances that have already successfully implemented and financed joint programs should help to minimize this risk.
- 6.3 Other risks could come from the lack of project managers who can work with groups of firms. This risk will be minimized by the training provided to contracted project managers selected by the business alliances.

VII. PERFORMANCE INDICATORS AND EVALUATION

- 7.1 The Bank will contract consultants to carry out a mid-term and final evaluation of the program. The mid-term evaluation will be prepared 18 months after program implementation is initiated or when 50% of the resources have been disbursed. A final evaluation will be conducted three months prior to the program completion.
- 7.2 During the program's execution, ACOPI will compile supervision and program evaluation indicators. These indicators are set forth in the Logical Framework (see Annex I) and will be used by the Bank Country Office and ACOPI to gauge the overall impact and to assess the results. Moreover, eligible plans of action must include base-line data on key business indicators that can be used to measure financial performance as well as productivity. Firms must provide updated accounts of these indicators on a periodic basis. This information will be kept in the program's Management Information System, and will allow for a rigorous evaluation of the program's impact on the beneficiaries.
- 7.3 The comparison of the performance of participating firms with that of similar non-participating firms should allow one to rigorously evaluate the effectiveness of the program to improve the business performance and competitiveness of firms that participate in cooperative business ventures. Information on non-participating firms would come from annual surveys of business conducted by economic authorities and business organizations.
- 7.4 For the final evaluation, an independent evaluation expert will assess the impact of the program on participating firms, and identify the strengths and weaknesses of the program's methodology. The executing agency will provide access to all the information and documentation needed to conduct these evaluations.

VIII. EXCEPTIONS TO POLICIES AND PROCEDURES

- 8.1 No exceptions to Bank policies are involved.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 Before the first disbursement: official agreements must be signed with other institutions regarding their financial contributions during the first year of the program for counterpart financing, and Operational Regulations and a model contract for the implementation of business alliance plans, acceptable to the Bank, formally approved by ACOPI. (The Operational Regulations and model contract have already been prepared and reviewed by ACOPI, and therefore their formal approval should not delay the financing of the program by the MIF.)
- 9.2 Continued program disbursements, after the 24th month of program implementation would be contingent on the establishment of an legally

independent entity by ACOPI and the delegation of administrative responsibilities of the program, and after the 30th month on the approval by ACOPI and the Board of Directors of a sustainability plan for the program, acceptable to the Bank.

- 9.3 **Status of preparation.** The design, budget and activities planned under the program have been prepared by ACOPI with input from stakeholders and the Bank Project Team. All of the key operational instruments of the program have already been prepared: including the Operating Regulations, a detailed budget, draft terms of reference for project staff and the regional coordinators, model proposal for the preparation of action plans, model terms of reference for the preparation of action plans., as well as a draft contract between the PEU and the business alliance for action plans. The capability of the Executing Agency to provide the local counterpart contribution has been confirmed.

LOGICAL FRAMEWORK ¹			
OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GENERAL OBJECTIVE			
The objective of this program is to enhance the competitiveness of smaller companies, through the development and strengthening of enterprise alliances as a means to improve their productivity.	Business performance indicators of participants is significantly better than those of similar firms that do not participate in business alliances.	Comparison of participating companies performance with those of the overall small and medium scale businesses in the sectors supported by the program. (Project monitoring reports and official business surveys.)	SME managers and owners understand the benefits of the project and dedicate the time and resources needed for the training and technical assistance.
PURPOSE			
The purpose of this program is to establish a mechanism to promote and support business alliances and to promote the sustainability and continued improvements in the effectiveness of this mechanism.	At least 150 small and medium scale businesses have worked in business alliances that receive support from the program, and at least half of supported groups are continuing to function. Demonstrated institutional capacity and financial sustainability needed to continue activities related to enterprise alliances beyond the life of the proposed program.	Project monitoring reports and system. Administrative responsibilities assumed by specialized new entity created including registration of by-laws.	Eligibility and selection mechanism works to support the more viable and dedicated business alliances.
COMPONENTS			
I. Raise awareness of enterprises and promote alliances	At least 500 representatives of SMEs will have been made aware of the benefits of forming enterprise alliances as means of increasing business competitiveness.	Mid-term and final evaluation reports and list of participants at each event.	SMEs seek information about mechanisms to improve performance and competitiveness through alliances and respond to the various mechanisms of the project used for transmitting information
II. Preparation of action plans	At least 20 action plans will have been prepared.	Copies of action plans.	SMEs are willing to pay between 25% of the costs needed to prepare the action plan.
III. Implementation of action plans	At least ten action plans will have been implemented, which will include the participation of at least 150 micro, small and medium enterprises located in at least six different industrial centers.	Mid-term and final evaluation reports; and contracts between program and alliance.	SMEs are willing to pay 50% of the consultancy costs needed to implement the action plan.

¹ Additional performance indicators will be developed for firms that participate in business alliances for this Project and for other projects that will comprise the Supply Chain Cluster at the initiation of the Project.

LOGICAL FRAMEWORK ¹			
OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
IV. Evaluation and dissemination of results	Intermediate and final evaluation reports; over 600 representatives of Colombian SMEs made aware of the results of the program.	Copies of reports and event registration.	Interest maintained in attending ACOPI national conference.
ACTIVITIES			
1.1 Inaugural event to launch the program.	- At least 200 representatives of private and public sector participate in the event.	Participant registration.	
1.2 Facilitation of program informational forums	- Twelve forums to be held.	Participant registration and event evaluation form.	
1.3 Seminars to promote the formation of alliances	- Twelve seminars expected over the course of the program.		
1.4 Development of informational publications	- Brochures explaining the characteristics of the program and two sets of 1000 bulletins to promote the results.	Copies of publications.	
1.5 Design and maintenance of an Internet website		Mid-term and final evaluation reports.	
2.1 Instruct regional coordinators in methodology for working with alliances	- Six regional coordinators instructed relative to program's approach.	Participant list.	
2.2 Selection and preparation of action plans	- At least 20 proposals accepted for preparation of action plans.	Copies of the proposals.	
2.3 Train project managers	- At least ten project managers trained.	Participant registration and event evaluation form.	
3.1 Implement action plans	- At least ten alliances will have implemented activities of their action plan.	Copy of alliance-program contract.	
4.1 Creation and maintenance of information management system	- Information regarding the results of the action plans of each alliance continuously updated.	Mid-term and final evaluation reports.	
4.2 Intermediate evaluation	- Evaluation completed mid-way through	Copy of evaluation.	

LOGICAL FRAMEWORK ¹			
OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
4.3 Final evaluation	- program execution.	Copy of evaluation.	
4.4 Disseminate results of program at annual conference of ACOPI	- Evaluation completed prior to the end of program. - At least 300 participants informed as to the results of the program and the benefits of working through alliances.	Participant registration.	